

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-11 ISO-00 AGR-20 AID-20 CIAE-00 COME-00

EB-11 FRB-03 INR-11 NSAE-00 RSC-01 XMB-07 OPIC-12

SP-03 CIEP-03 LAB-06 SIL-01 OMB-01 NSC-07 SS-20

STR-08 CEA-02 L-03 H-03 PA-04 PRS-01 USIA-15 NEA-14

DRC-01 /189 W

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P 030356Z SEP 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 6518

INFO AMEMBASSY RANGOON PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 3/31/75

TAGS: EAID, EFIN, BM

SUBJECT: PROPOSED ADB LOAN - RICE PROCESSING INDUSTRIES PROJECT
(BURMA)

SUMMARY: ADB MANAGEMENT PROPOSES \$6.5 MILLION EQUIVALENT LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF UNION OF BURMA (GUB) TO FINANCE FOREX COST OF THREE NEW RICE MILLS AND MODERNIZATION OF 135 OTHERS; A SILO COMPLEX AT RANGOON WITH RELATED CONSULTANT SERVICES; 35 AGRICULTURAL WAREHOUSES IN VARIOUS PARTS OF THE COUNTRY; MODERNIZATION OF 19 RICE BRAN OIL EXTRACTION PLANTS AND 10 REFINERIES AND ONE NEW REFINERY; ALSO CONSTRUCTION OF 40 RICE BRAN STABILIZATION PLANTS. PROJECT IS FIRST PHASE OF THREE PHASED EFFORT TO INCREASE OUTPUT BURMA'S TRADITIONAL EXPORT CROPS. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY

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1. ADB DOC. R83-74 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN

POUCHED ADDRESSEES AUG. 23. BOARD CONSIDERATION SCHEDULED
SEPTEMBER 12.

2. ADB MANAGEMENT PROPOSING US\$6.5 MILLION LOAN FROM SPECIAL FUNDS RESOURCES TO GOVT OF UNION OF BURMA (GUB). PROCEEDS WILL FINANCE FOREX COSTS OF RENOVATING 135 GOVT CONTROLLED PRIVATE RICE MILLS AND CONSTRUCTION OF THREE NEW RICE MILLS; EXISTING OBSOLETE MILLING EQUIPMENT AND MACHINERY, STEAM BOILERS, ELECTRIC MOTORS AND TRANSFORMERS TO BE REPLACED; THREE NEW RICE MILLS TO BE BUILT IN TWANTE, LABUTTA AND EINME TOWNSHIPS WILL HAVE 2 TONS/HOUR RICE MILLING CAPACITY; 35 NEW WAREHOUSES TO HAVE 1000 TON CAPACITY; CONSTRUCTION OF RANGOON SILO HAVING INITIAL CAPACITY 10,000 TONS TO SERVE ANNUAL EXPORT REQUIREMENT FOR 200,000 TONS OF PULSES, BEANS AND CORN AND 12 MAN/MOS CONSULTANT SERVICES FOR SILO DESIGN, TENDER DOCUMENTS, CONSTRUCTION AND INSTALLATION SUPERVISION, OPERATION AND MAINTENANCE; RENOVATION OF 19 RICE BRAN OIL EXTRACTION PLANTS ADJACENT TO RICE MILLS WILL INCLUDE NEW POWER GENERATING PLANTS, STEAM BOILERS AND EXPLOSION-PROOF ELECTRICALS; EQUIPMENT IN 10 RICE BRAN OIL REFINERIES TO BE REPLACED WITH MORE SUITABLE SYSTEMS ENABLE HIGHER VOLUME, BETTER QUALITY EDIBLE OIL PRODUCTION; ONE NEW REFINERY OF 10 TONS/DAY CAPACITY TO BE BUILT AT BASSEIN, 40 RICE BRAN STABILIZATION PLANTS WITH ASSOCIATED STORAGE GODOWNS OF 500 TONS CAPACITY TO BE CONSTRUCTED ADJACENT TO EXTRACTION PLANTS TO ASSURE LONGER SEASON, GREATER UTILIZATION BY PROVIDING 40,000 TONS ANNUAL SUPPLY STABILIZED BRAN FEED STOCK DURING AND AFTER MILLING SEASON. PROPOSED TERMS ARE 40 YEARS AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, ONE PERCENT SERVICE CHARGE. GOVT OF UNION OF BURMA (GUB) TO BE BORROWER, TRADE CORP NO. 1 (MINISTRY OF TRADE) TO BE EXECUTING AGENCY. GOVT TO RELEND LOAN PROCEEDS TO TRADE CORP NO. 1 AT STANDARD GOVT RATE OF 6 PERCENT INTEREST, 25 YEAR AMORTIZATION INCLUDING 5 YEARS GRACE PERIOD. TRADE CORP NO. 1 TO SUB-LEND PART OF PROCEEDS OF LAON INTENDED FOR RICE MILL REHAB. TO PRIVATE OWNERS AT 7 PERCENT INTEREST, 10 YEAR AMORTIZATION AND 1 YEAR GRACE PERIOD.

3. PROPOSED PROJECT IS FIRST PHASE OF THREE-PHASED PROGRAM WHICH WHEN COMPLETED WILL FACILITATE INCREASES IN FOREX-EARNING RICE AND OTHER AG EXPORTS BY MODERNIZING AND EXPANDING PROCESSING AND STORAGE FACILITIES, AND BY REDUCING IMPORTS OF EDIBLE OILS.
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OUTPUT HAD BECOME STAGNANT DUE TO UNDER-INVESTMENT IN AGRICULTURAL PRODUCTION AND PROCESSING, SHORTAGE OF AG CREDIT, AND DYSFUNCTIONAL GOVT PROCUREMENT PRICING POLICIES FOR CROPS, ESPECIALLY PADDY. AGED AND POORLY MAINTAINED MILLS HAVE LOW EFFICIENCY AND RECOVERY RATES CAUSING HEAVY LOSSES AND POOR QUALITY OF MILLED RICE. ALSO LACK OF STORAGE FACILITIES AGGRAVATES LOSSES AND QUALITY DETERIORATION OF AG PRODUCTS. OUTMODED OIL PLANTS AND LACK OF STABILIZATION CAPACITY SIMILARLY

RESULTS IN REDUCED QUANTITIES OF POORER QUALITY RICE BRAN OIL.

4. PAST GOVT PROCUREMENT PRICING POLICIES HAVE BEEN IDENTIFIED AS MAJOR CONTRIBUTING CAUSE TO LOW EXPORT EARNINGS FROM RICE. GOVT PURCHASE AND DISTRIBUTION AT CONTROLLED PRICES SET LOW IN RELATION TO BOTH WORLD RICE PRICES AND OTHER DOMESTIC CONSUMER GOODS ENCOURAGED PADDY FARMERS TO BYPASS OFFICIAL PROCUREMENT CHANNELS AND MARKET THEIR CROP PRIVATELY. ACCORDINGLY AMOUNT OF PADDY PROCURED BY SOLE OFFICIAL AGENCY, TRADE CORP NO. 1 FELL. ABORTIVE GOVT EFFORT TO SHIFT RESPONSIBILITY FOR PADDY PROCUREMENT TO CO-OPS WHILE STILL MAINTAINING ARTIFICIALLY LOW PRICE, FAILED TO INCREASE PROCUREMENT AND INDEED HAD OPPOSITE EFFECT FINALLY LEADING TO GOVT DECISION TO DECONTROL CROP IN MAY 1973.

5. NEW SYSTEM ESTABLISHED NOV. 1973 INCREASED PURCHASE PRICE 41 PERCENT AND PERMITS FARMERS TO PRIVATELY SELL SURPLUS PRODUCTION (ABOVE SET QUOTA AMOUNT WHICH STILL MUST BE SOLD TO GOVT). ALSO, DOMESTIC RETAIL PRICE OF TRADE CORP NO. 1 MILLED RICE TO BE BASED ON COST OF PRODUCTION PLUS 5-10 PERCENT MARK-UP; TRADE CORP. ALSO TO SET EXPORT PRICES, PAYING 1 PERCENT COMMISSION TO GOVT. MYANMA EX-IM CORP. (MEIC: TRADE CORP. NO. 22) GOVT EXPECTS NEW PRICE AND HANDLING TO RESTORE FLOW OF RICE TO LEGITIMATE GOVT. CHANNELS.

6. TOTAL COST OF PROJECT ESTIMATED AT US\$13.7 MILLION EQUIVALENT OF WHICH FOREX COMPONENT OF US\$6.5 MILLION TO BE FINANCED BY PROPOSED LOAN. LOAN PROCEEDS TO BE ALLOCATED TO: RENOVATION OF 135 RICE MILLS (\$1.788); 3 NEW RICE MILLS (\$.168); SILO CONSTRUCTION (\$.834); CONSTRUCTING 35 WAREHOUSES (\$.191); RENOVATING 19 OIL EXTRACTION PLANTS (\$1.105); RENOVATING 10 OIL REFINERIES (\$.847); CONSTRUCTING 1 NEW REFINERY (\$.187); 40 RICE BRAN STABILIZATION PLANTS (.499) AND CONSULTANT LIMITED OFFICIAL USE

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SERVICES (\$.83) WITH \$.798 CONTINGENCY. (ALL ABOVE FIGURES IN MILLIONS).

7. PROCUREMENT TO BE IN ACCORD BANK'S GUIDELINES WITH CONTRACTS OVER \$50,000 ON BASIS INTERNATIONAL COMPETITIVE BIDDING; THOSE UNDER \$50,000 ON BASIS INTERNATIONAL SHOPPING. TRADE CORP. NO. 1 TO PREPARE TENDER DOCS.

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R 030356Z SEP 74

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8. EXECUTING AGENCY, TRADE CORP. NO. 1, IS STATE-OWNED CORP. WITH SOLE AUTHORITY PROCURE, PROCESS, TRANSPORT, STORE, DISTRIBUTE AND EXPORT (THROUGH MEIC-TRADE CORP. NO. 22) ALL AG PRODUCTS INCLUDING RICE, PULSES, BEANS, CEREALS AND RUBBER, OF WHICH RICE IS MAJOR COMMODITY. AGENCY HAS DIVIDED COUNTRY INTO 32 ZONES EACH UNDER ZONAL MANAGERS. AGENCY IS FULLY EXPERIENCED IN CONSTRUCTION AND OPERATION OF RICE MILLS, WAREHOUSES AND RICE BRAN OIL PROCESSING. BANK HAS PROPOSED AND AGENCY AGREED DECENTRALIZE IMPLEMENTATION PROJECT COMPONENTS INTO 3 DEPTS AND TO 5 SUB-PROJECT TEAMS; ESTABLISH COORDINATION WITH GOVT CONSTRUCTION CONTRACTOR (SOLE CIVIL WORKS CONTRACTOR); OTHER GOVT AGENCIES INVOLVED IN IMPLEMENTATION OF PROJECT (SIDE LTR. NO. 4, PARA. 5). PRIVATE RICE MILL OWNERS WHOSE MILLS BEING REHABED WILL RECEIVE MILL ON TURNKEY BASIS FROM EXECUTING AGENCY WITH ONE-YEAR PERFORMANCE WARRANTY. GOVT HAS INCREASED MILLING CHARGE PAID TO MILLERS BY 30 PERCENT OVER PREVIOUS \$2-\$3.30/TON OF PADDY; WILL CONTINUE TO REVIEW RATES PAID TO ASSURE PROPER OPERATION AND MAINTENANCE OF MILLS. FOREIGN CONSULTANTS TO BE HIRED TO SUPERVISE SILO CONSTRUCTION INCLUDING DESIGNS, PREPARATION OF TENDER DOCS, LIMITED OFFICIAL USE

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SUPERVISING CONSTRUCTION, INSTALLATION AND START-UP.

9. ALL REVENUE OF TRADE CORP. NO. 1 IS CREDITED TO UNION BANK OF BURMA (CENTRAL BANK) AND ALL EXPENSES, CURRENT AND CAPITAL, MET BY BUDGET APPROPRIATIONS. TRADE CORP. NO. 1 USES NORMAL DOUBLE ENTRY BOOKKEEPING WITH WELL-MAINTAINED ACCOUNTS; FIXED ASSETS DEPRECIATED ON STRAIGHT LINE BASIS. ACCOUNTS AUDITED ANNUALLY BY GUB AUDITOR GENERAL TO ASSURE CONFORMITY WITH BUDGET. TRADE CORP. HAS SHOWN OPERATING LOSSES PAST FOUR YEARS, ATTRIBUTED TO LOW SELLING PRICES FIXED FOR MILLED RICE; UNDERSUPPLY OF PADDY TO PROCESS; POOR MILLING STANDARDS USING OBSOLETE EQUIPMENT; HIGH PROCESSING AND DISTRIBUTION COSTS. RECENT CHANGES IN GUB RICE POLICY AND PROPOSED PROJECT BENEFITS EXPECTED TO ALLEVIATE SITUATION. ALSO, DUE TO SEVERAL YEARS' PROFITABLE OPERATION PRIOR TO 1965, AMOUNTS PAID BY TRADE CORP. NO. 1 AS ADVANCE INCOME TAX TO GUB BASED ON BUDGETED PROFIT (WHICH HOWEVER NEVER MATCHED ACTUAL PROFIT) RESULTED IN ACCRUED OVERPAYMENT OF TAXES WHICH TOTALLED KYAT(K)316 MILLION AS OF SEPT. 1972. (K1 MILLION - US\$207,700). AS RESULT, BOOKS OF TRADE CORP. NO. 1 SHOW LARGE CURRENT ASSETS REPRESENTED BY ADVANCE TAX PAYMENTS (44 PERCENT) AND INVENTORIES (45 PERCENT). GUB HAS ASSURED ADJUSTMENT TO ACCOUNTS INCLUDING REVALUATION OF FIXED ASSETS WILL BE COMPLETED BY MARCH 31, 1975.

10. BANK CONSIDERS PROJECT TECHNICALLY SOUND, FINANCIALLY VIABLE. ECONOMIC RATES OF RETURN CALCULATED SEPARATELY ON PROJECT COMPONENTS SHOW 28.8 FOR RICE MILLS AND WAREHOUSES; 11.0 FOR SILO AND 18.4 FOR BRAN OIL PLANTS; WITH OVERALL RATE OF RETURN FOR ENTIRE PROJECT ESTIMATED AT 21.3. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST EMBASSY RANGOON'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972. SULLIVAN

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Message Attributes

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Disposition Date: 28 MAY 2004
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